

Message Text

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ACTION EB-11

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TAGS: EFIN, CB

SUBJECT: NO AGREEMENT ON RESCHEDULING KHMER DEBT

REF PARIS 29091; PARIS 29588; STATE 229104

PASS TREASURY AND AID

1. SUMMARY: KHMER DEBT CONFERENCE,

1. SUMMARY: KHMER DEBT CONFERENCE, RECONVENED NOV 22, PRODUCED NO AGREEMENT ON RESCHEDULING OF 1974 PAYMENTS ON KHMER EXTERNAL DEBT. FRANCE AND GERMANY OFFERED RESCHEDULE 75 PERCENT OF PRINCIPAL AND INTEREST ON BILATERAL DEBTS AND TO RESCHEDULE PREK-THNOT PAYMENTS, PROVIDED ALL PROJECT LENDERS DID SO. U.K., ITALY AND JAPAN WERE UNABLE AGREE TO PREK-THNOT RESCHEDULING. KHMER DELEGATION SAID THEY WERE NOT YET IN POSITION TO DETERMINE WHETHER CREDITOR' OFFER WAS BEARABLE, BEACUSE THEY DID NOT YET KNOW WHAT WOULD BE THEIR FOREIGN EXCHANGE AVAILABILITIES IN 1974. IF SITUATION CLARIFIES BEFORE JANUARY 1, THEY WILL GET IN TOUCH WITH CREDITORS.

MEANWHILE, THEY WILL PURSUE REQUESTS FOR PREK-THNOT RESCHEDULING BILATERALLY WITH U.K., ITALY AND JAPAN. END SUMMARY.

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2. KHMER DEBT CONFERENCE RECONVENED NOV 22 WITH NEBOT, ASSISTANT DIRECTOR OF FRENCH TREASURY (EXTERNAL BILATERAL RELATIONS), PRESIDING.

3. IN CREDITORS-ONLY SESSION, NEBOT CONFIRMED KHMER REQUEST THAT PAYMENTS IN 1974 ON LOANS MADE UNDER PREK-THONT PROJECT NOW BE INCLUDED IN RESCHEDULING. FRENCH AND GERMAN DELEGATIONS INDICATED THEY WOULD BE PREPARED MEET KHMER REQUEST, PROVIDED ALL OTHER PREK-THNOT LENDERS DID LIKEWISE. U.K. DELEGATE SAID HIS INSTRUCTIONS WERE TO RESIST VIGOROUSLY INCLUSION OF PREK-THNOT, ON GROUNDS AMOUNTS DUE WERE DE MINIMIS AND ORIGINAL LOAN MADE ON VERY FAVORABLE TERMS. ITALIAN DELEGATE SAID HIS INSTRUCTIONS WERE TO REITERATE HIS OBSERVER STATUS AND NOT TO AGREE TO INCLUSION OF PREK-THNOT. JAPANESE DELEGATE WAS WITHOUT INSTRUCTIONS.

4. IN LIGHT FOREGOING SITUATION, NEBOT PROPOSED THAT FRANCE AND GERMANY OFFER KHMER DELEGATION RESCHEDULING OF 75 PERCENT PRINCIPAL AND INTEREST DUE 1974 ON BILATERAL CREDITS, WITH CONSOLIDATION PERIOD OF TEN YEARS, THREE-YEAR GRACE PERIOD AND CONSOLIDATION INTEREST RATE OF 3 PERCENT. AGREED MINUTE WOULD INCLUDE "GOOD WILL CLAUSE," STATING PREK-THNOT CREDITORS READY TO STUDY KHMER REQUEST FOR RESCHEDULING AMOUNTS DUE IN 1974 UNDER LOANS EXTENDED FOR THIS PROJECT. WITH SOME BLUDGEONING, NEBOT MANAGED TO BRING U.K., ITALIAN AND JAPANESE DELEGATES AROUND TO HIS VIEWPOINT THAT THIS, IN EFFECT, COMMITTED THEM TO NOTHING, WITH THEIR GOVERNMENTS ENTIRELY FREE TO ACCEPT OR REJECT KHMER REQUEST. HE EMPHASIZED THAT FRENCH AND GERMANS WOULD NOT RESCHEDULE PREK-THNOT CLAIMS UNLESS ALL PREK-THONT CREDITORS DID SO.

5. IMF REPRESENTATIVES POINTED OUT THAT EVEN WITH 75 PERCENT OF BOTH FRENCH AND GERMAN BILATERAL CLAIMS AND PREK-THNOT CLAIMS RESCHEDULED, AND ASSUMING 75 PERCENT REPAYMENTS ON AMOUNTS DUE IN 1974 UNDER PREVIOUS CONSOLIDATIONS, TOTAL DEBT SERVICING WOULD AMOUNT TO \$1.4 MILLION. WITHOUT PREK-THNOT RESCHEDULING, TOTAL WOULD BE \$1.7 MILLION. IMF REPRESENTATIVES UNDERLINED THAT EVEN LOWER OF THESE TWO FIGURES WOULD STRAIN KHMER FINANCIAL CAPABILITIES. NEBOT SAID THAT, NEVERTHELESS, CREDITORS COULD NOT INCREASE RESCHEDULING BEYOND 75 PERCENT, PARTICULARLY BEARING IN MIND THAT THERE WAS NO POSSIBILITY OF ECONOMIC STABILIZATION PROGRAM NORMALLY CONSIDERED PREREQUISITE FOR ANY RESCHEDULING LIMITED OFFICIAL USE

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WHATSOEVER.

6. IN PLENARY SESSION, AFTER NEBOT HAD PRESENTED CREDITORS' PROPOSAL AS OUTLINED IN PARA 4 ABOVE, KHMER DELEGATION SAID IT WAS IMPOSSIBLE FOR THEM TO DETERMINE AT THIS TIME WHETHER TERMS OFFERED BY CREDITORS WERE BEARABLE. FROM KHMER VIEWPOINT, THEY STILL DID NOT KNOW WHAT THEIR FOREIGN EXCHANGE AVAILABILITIES WOULD BE IN 1974, AND THEREFORE COULD NOT DETERMINE HOW MUCH

MONEY THEY COULD DEVOTE TO DEBT SERVICING. DESPITE RECENT MEETING IN PARIS ON EXCHANGE SUPPORT FUND, ONLY U.S., MALAYSIA AND THAILAND HAD INDICATED AMOUNTS THEY WERE PREPARED TO CONTRIBUTE TO ESF NEXT YEAR. KHMER DELEGATION CONCLUDED THEY WOULD DO EVERYTHING POSSIBLE TO LET CREDITORS KNOW BEFORE JANUARY 1, 1974 WHETHER OFFER WAS ACCEPTABLE.

7. NEBOT SAID HE VERY MUCH REGRETTED NO AGREEMENT POSSIBLE NOW. HE EMPHASIZED THAT NO ONE WAS PREPARED TO RESCHEDULE MORE THAN 75 PERCENT OF PRINCIPAL AND INTEREST. HE SAID THAT IF KHMER GOVT NOT ABLE ACCEPT THESE TERMS, CREDITORS WOULD PREFER SIMPLE DEFAULT UNTIL OUTLOOK IMPROVED. HE CAUTIONED, HOWEVER, THAT DEFAULT WOULD MEAN CUTTING OFF OF SHORT-TERM CREDITS THAT CAMBODIA HAD BEEN RECEIVING FROM FRANCE AND PERHAPS OTHERS FOR FINANCING PART OF ITS IMPORTS. HE EXPRESSED HOPE THAT A MATTER OF PRIORITY FOR DEBT SERVICING TO PAYMENT OF AMOUNTS DUE ON PREVIOUS CONSOLIDATIONS. AS FOR PREK-THNOT, HE COUNSELED KHMER DELEGATION TO ENTER INTO BILATERAL DISCUSSIONS WITH U.K., ITALY AND JAPAN RE POSSIBILITY OF RESCHEDULING OF AMOUNTS DUE.

8 FOLLOWING BREAKDOWN OF 1974 PAYMENTS ON PREK-THNOT DEBT BY CREDITOR COUNTRY:

FRANCE	\$71,000
ITALY	105,000
JAPAN	166,000
GERMANY	25,000
U.K.	45,000

TOTAL	\$412,000
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